

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 93-738-W/S - ORDER NO. 98-369
MAY 20, 1998

IN RE: Application of Carolina Water Service, Inc.)
for an Increase in its Rates and Charges for)
Water and Sewer Service.)

ORDER SETTING NEW
ACCOUNT CHARGE

This matter comes before the Public Service Commission of South Carolina ("the Commission") on remand from the Supreme Court of South Carolina. In its opinion in Porter v. South Carolina Public Service Commission and Carolina Water Service, Inc., ___S.C.___, 493 S.E.2d 92 (1997), the Supreme Court remanded to the Commission two issues arising from an Application by Carolina Water Service, Inc. ("CWS") for an increase in its rates. By Order No. 98-163 dated March 2, 1998, in the instant Docket, the Commission disposed of the issue related to deferred charges. The Commission also held in Order No. 98-163 that a hearing was required to address the remaining issue of the appropriate amount of CWS' new account charge, including the position of the Consumer Advocate that a reduction in the new account charge is required.

A hearing on the issue of the new account charge was convened on April 15, 1998, at 2:20 p.m. in the Commission's Hearing Room. Pursuant to S.C. Code Ann. Section 58-3-95 (Supp. 1997), a panel of three Commission members was designated to hear and rule on this matter. The panel consisted of Vice Chairman Bradley, presiding, and Commissioners Bowers and Arthur. John M.S. Hoefer, Esquire represented CWS;

Elliott F. Elam, Jr., Esquire represented the Consumer Advocate for the State of South Carolina (“the Consumer Advocate”); and Florence P. Belser, Staff Counsel, represented the Commission Staff.

At the hearing, CWS presented the testimony of Carl J. Wenz, Vice President for Regulatory Matters for both Utilities, Inc. and CWS.¹ Upon Motion by CWS and with agreement of the parties, Mr. Wenz did not appear at the hearing, and his verified prefiled testimony was made a part of the record of the case. The Commission Staff presented the testimony of Charles A. Creech. The Consumer Advocate did not present a witness.

EVIDENCE OF RECORD

Mr. Wenz testified that the new account charge should not be reduced from the \$27.00 previously authorized by the Commission. Mr. Wenz stated that unless the amount of the new account charge resulted in unjust or unreasonable rates to the customers of CWS that no reduction in the new account charge was warranted. Further, Mr. Wenz stated that CWS does not believe that the charge is unjust or unreasonable.

In support of his position, Mr. Wenz maintained that the Commission set rates which are just and reasonable by establishing an appropriate operating margin. In ascertaining an appropriate operating margin, Mr. Wenz noted that the Commission takes into consideration whether a sound rate structure or rate design is established. Mr. Wenz observed that the Commission, in determining a sound rate structure, noted in Order No. 94-484 that one of the three fundamental criteria in arriving at a determination that a rate structure is sound is “the fair cost apportionment objective, which invokes the principle

¹ Utilities, Inc. is the parent company of Carolina Water Service, Inc.

that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the services.” Accordingly, Mr. Wenz stated that the fair cost apportionment objective was met when the Commission assigned a portion of the revenue requirement to the new account charge. Further, Mr. Wenz stated that he is not aware of any regulatory principle or Commission precedent that prohibits a rate charged from exceeding the cost incurred in providing a specific service.

Mr. Wenz further testified that the issue does not turn on whether the new account charge exceeds costs but rather turns on recovery of CWS’ total revenue requirement in the context of the approved rate design. Mr. Wenz offered that if the Commission were to reduce the new account charge then the Commission would need to modify the rate structure to shift that portion of the revenue requirement now satisfied by the new account charge to another part of the rate structure to ensure that the approved operating margin was obtained.

Mr. Creech, in his testimony, recounted a brief history of the new account charge. According to Mr. Creech, the new account charge of \$27.00 was approved by the Commission by Order No. 93-402 in Docket No. 91-641-W/S for all customers of CWS, except those customers living in the Calvin Acres and Glen Village subdivisions. Order No. 93-402 approved a new account charge of \$20.00 for those customers living in the Calvin Acres and Glen Village subdivisions. Mr. Creech also noted that CWS filed “Schedule G” in Docket 91-641-W/S to support the new account charge of \$27.00. See, Hearing Exhibit No. 1.

In the present Docket, Mr. Creech stated that CWS filed its "Exhibit H" to support an increase in the New Account Charge to \$28.00. See, Hearing Exhibit No. 1. Mr. Creech noted that "Schedule H" indicates that the total expense involved in supplying service to a new customer at a location where a previous customer resided is shown on "Schedule H" to be \$28.82. However, Mr. Creech also stated that of the \$28.82 total shown on "Schedule H" only \$13.99 is related to turning on the service for the new customer while \$14.83 is related to terminating service to the existing customer. As a result of a portion of the justification being attributable to terminating service of a previous customer and not related to supplying service to the new customer, Mr. Creech stated that Staff supported a reduction in the New Account Charge.

On cross-examination by the Consumer Advocate, Mr. Creech testified that he believed that the cost justification demonstrated by "Schedule H" justified setting the New Account Charge at either \$13.99 or \$13.49. The difference in the two figures depends on whether the entire cost for stationery and supplies is included in the charge or whether one-half of the cost for stationery and supplies is included. The Consumer Advocate asserted that only one-half of the cost for stationery and supplies should be included.

FINDINGS OF FACT

Based upon the testimony and record in this matter, the Commission makes the following findings of fact:

1. CWS is currently charging \$27.00 to all customers, other than those customers residing in the Calvin Acres and Glen Village subdivisions, for establishing

new accounts. Customers in the Calvin Acres and Glen Village subdivisions are currently charged a new account charge of \$20.00.

2. CWS' cost of establishing a new account is \$13.49.

3. The Commission finds that the appropriate new account charge should be related to the cost of providing that service and sets the new account charge for all customers, including those customers in Glen Village and Calvin Acres, at \$13.50.

EVIDENCE AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The evidence supporting this finding is contained in the testimony of witness Creech for the Commission Staff and the orders of the Commission found in the records of the Commission. This fact that CWS is currently charging these amounts is not disputed by the parties.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 2

The evidence supporting this finding is found in the testimony of Staff witness Creech. Mr. Creech testified that the cost justification illustrated by "Exhibit H" showed costs amounting to \$13.99 for turning service on for a new customer. See, Hearing Exhibit No. 1. Further, on cross-examination by the Consumer Advocate, Mr. Creech testified that the amount could be as low \$13.49 if the cost of stationery and supplies was also split between terminating the old customer and connecting a new customer. As the cost support found in "Exhibit H" contained costs of terminating the service of the old customer as well as establishing the service of the new customer, the Commission concludes that it is reasonable that the costs of stationery and supplies should be divided

between the two tasks. Therefore, the Commission concludes that only one-half of the costs of stationery and supplies should be included in the new account charge and hereby finds that the cost to CWS of establishing a new account is \$13.49

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

CWS offered no evidence to dispute the cost figures found “Schedule H” in Hearing Exhibit No. 1. CWS argued that its opportunity to earn its approved operating margin would be affected. While a reduction in revenues, absent any other adjustments to expenses could result in a lower operating margin, CWS did not present any evidence to support its contention that a shifting of the revenue requirement from the new account charge to other rates and charges is required to ensure that the approved operating margin is obtained. CWS did not quantify, or even attempt to quantify, the amount of revenue that would be lost if the Commission were to reduce the new account charge to an amount which is justified by the cost of providing the service. Absent specific information regarding the amount of revenue lost by a reduction in the charge from the current \$27.00 to a cost justified charge, the Commission is left to speculate on the actual effect on the approved operating margin.

Therefore, the Commission concludes and finds that the new account charge should be based on costs and further finds that the costs, as demonstrated by “Schedule H” of Hearing Exhibit No. 1, support a new account charge of \$13.50.

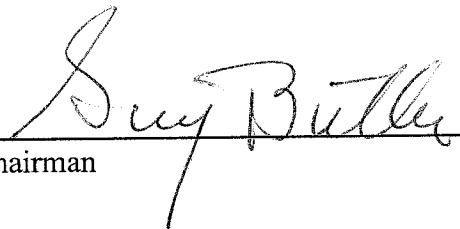
IT IS THEREFORE ORDERED THAT:

1. The new account charge for all CWS customers, including those customers in Glen Village and Calvin Acres subdivisions, shall be \$13.50.

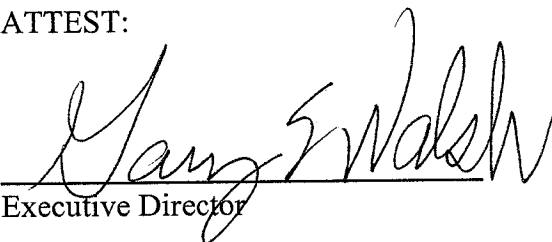
2. The herein approved new account charge shall be effective on and after the date of this Order.

3. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)